

Joint Property Tax Study Committee Presentation

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Topics to be Covered

- Property Tax Constitutional Provisions
- Property Tax Reduction Factors and Floors
- Interaction between the Property Valuation and the Fair School Funding Plan

Constitutional Provisions

- Article XII, Section 2
- Article XII, Section 2a
- Article II, Section 36

Article XII, Section 2-Rate of Taxation

1)Rate of Taxation—"No property, taxed according to value, shall be so taxed in excess of one per cent of its true value in money for all state and local purposes, but laws may be passed authorizing additional taxes to be levied outside of such limitation, either when approved by at least a majority of the electors of the taxing district voting on such proposition, or when provided for by the charter of a municipal corporation."

Article XII, Section 2- Rate of Taxation

- One percent is the equivalent of 10 mills
- ORC section 5705.02 further restricts unvoted taxes (inside millage) to 10 mills of taxable property (35 % of true value)
- The 10 inside mills are generally shared by a school district, the county it is in, and the overlapping township or municipality

Article XII, Section 2- Rate of Taxation

- The allocation of the 10 inside mills in most areas occurred in the 1930s when the state sales tax was implemented and inside millage was reduced from 15 mills to 10 mills
- Most schools have somewhere between 4 and 6 inside mills
- At the school's discretion, inside millage can be for any purpose a property tax can be adopted for, although changes in purpose (i.e. moving from current expense to permanent improvement) must be approved by county budget commissions

Article XII, Section 2- Uniform Rule

Uniform Rule—" Land and improvements thereon shall be taxed by uniform rule according to value,..."

Land and improvements thereon is the definition of real property.
This provision does not apply to tangible personal property.

Article XII, Section 2- Exception to Uniform Rule

“... except that laws may be passed to **reduce taxes by providing for a reduction in value of the homestead** of permanently and totally disabled residents, **residents sixty-five years of age and older**, and residents sixty years of age or older who are surviving spouses of deceased residents who were sixty-five years of age or older or permanently and totally disabled and receiving a reduction in the value of their homestead at the time of death, provided the surviving spouse continues to reside in a qualifying homestead, **and providing for income and other qualifications to obtain such reduction.**”

Article XII, Section 2- Uniform Rule

- 2 main concepts of Uniform Rule
 - All real property must have a uniform assessment percentage based on true value (not just a standard 35 percent assessment rate)—Laid out in *Park Investment Co. v Board*, Ohio Supreme Court 68-277, 1972
 - Except as allowed by Article XII, Section 2a, every property in a taxing district must have an identical rate of taxation—See *State, ex rel Swetland v Kinney*, Ohio Supreme Court 79-1402, 1980

Article XII, Section 2- Uniform Rule

Rep. Troy/Co-Chair Blessing

- Rep. Troy bought house in 2010 for \$100K
- Sold house to Sen. Blessing in 2020 for \$200K
- House valued at \$200k in 2020
- Because of sale, true value for tax purposes in 2020 is \$200K
- Effective assessed value is 35% of true value ($\$200K * 35\%$) / \$200k

Co-Chair Roemer

- Bought house in 2010 for \$100K
- Continues to live in house
- House valued at \$200K in 2020
- Because of continuous ownership, true value for tax purposes is \$130K
- Effective assessed value is 22.75% of true value ($\$130K * 35\%$) / \$200k

This is the situation that the Supreme Court ruled unconstitutional in the Park Investment decision

Article XII, Section 2- Uniform Rule

Jack—Age 40

- In 2022, home's true value is \$100K
- In 20-mill district, taxes in 2022 are \$700 ($\$100K * .35 * .02$)
- In 2023, home value goes up to \$130K
- In 2023, taxes increase to \$910 ($130K * .35 * .02$)
- Effective tax rate in 2023 is 20 mills ($\$910 / (\$130K * .35)$)

Jill—Age 70, Income \$50K

- In 2022, home's true value is \$100K
- In 20-mill district, taxes in 2022 are \$700
- In 2023, home value goes up to \$130K
- In 2023, taxes are frozen at \$700 because of age and income
- Effective tax rate in 2023 is 15.38 mills ($\$700 / (\$130K * .35)$)

This is the situation that the Supreme Court ruled unconstitutional in the Swetland decision

Article XII, Section 2- Exception to Uniform Rule

This paragraph provides exemptions from property taxation based upon usage of the property

“Without limiting the general power, subject to the provisions of Article I of this constitution, to determine the subjects and methods of taxation or exemptions therefrom, general laws may be passed to exempt burying grounds, public school houses, houses used exclusively for public worship, institutions used exclusively for charitable purposes, and public property used exclusively for any public purpose, but all such laws shall be subject to alteration or repeal; and the value of all property so exempted shall, from time to time, be ascertained and published as may be directed by law.”

Article II, Section 36- Current Agricultural Use Valuation

- Provides an exception to uniform rule for property primarily used to generate agricultural income (CAUV)
- Allows the value to be based on its ability to produce agricultural income rather than its highest and best use

Article XII, Section 2a-Exceptions to Article XII, Section 2

(B) This section **does not apply to** any of the following:

(1) Taxes levied at whatever rate is required to produce a specified amount of tax money or an amount to pay debt charges;

(2) Taxes levied within the one per cent limitation imposed by section 2 of this article;

(3) Taxes provided for by the charter of a municipal corporation.

Article XII, Section 2-Classification of Real Property

“(C) Notwithstanding Section 2 of this article, laws may be passed that provide all of the following:

(1) Land and improvements thereon in each taxing district shall be placed into one of two classes **solely** for the purpose of separately reducing the taxes charged against all land and improvements in each of the two classes as provided in division(C)(2) of this section. The classes shall be:

- (a) Residential and agricultural land and improvements (Class 1);
- (b) All other land and improvements (Class 2).”

Article XII, Section 2a- Calculation of Reduction Factors

“With respect to each voted tax authorized to be levied by each taxing district, **the amount of taxes imposed** by such tax against all land and improvements thereon in each class shall be reduced in order that the amount charged for collection against all land and improvements in that class in the current year, exclusive of land and improvements not taxed by the district in both the preceding year and in the current year and those not taxed in that class in the preceding year, **equals the amount charged for collection against such land and improvements in the preceding year.**”

Article XII, Section 2a- Limitations on Reduction Factors

“Laws may be passed to provide that the reductions made under this section in the amounts of taxes charged for the current expenses of cities, townships, school districts, counties, or other taxing districts are subject to the limitation that the sum of the amounts of **all taxes charged for current expenses** against the land and improvements thereon in each of the two classes of property subject to taxation in cities, townships, school districts, counties, or other types of taxing districts, **shall not be less than a uniform percent of the taxable value of the property in the districts to which the limitation applies. Different but uniform percentage limitations may be established for cities, townships, school districts, counties, and other types of taxing districts.**”

Tax Reduction Factors

Tax Reduction Factors

- Enacted by H.B. 920 in 1976
- Refined by the passage of Article XII, Section 2a of the Constitution in 1980
- *Tax reduction factors* are designed to:
 - Prevent a taxing jurisdiction from realizing additional revenue from increases in the market value of real property
 - Only applies to real property that existed in the district in both the current and previous year
 - Does not apply to new construction or improvements to real property

Property Tax Limitations Brief History

- Ohio has a long history of property tax limitations
- Reduction factors began in 1976
- For about 50 years prior to that a *millage rollback system* existed

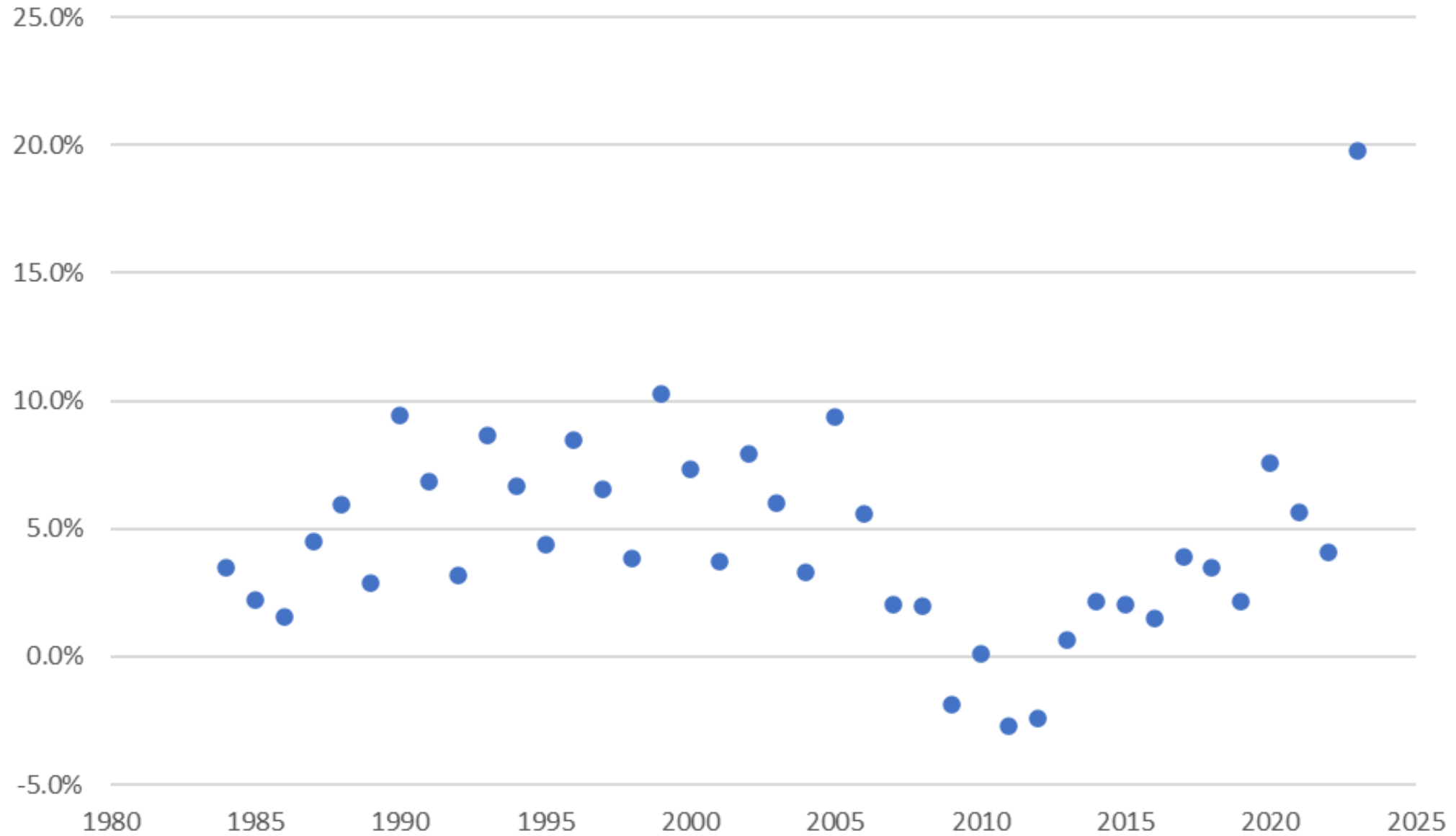
Property Tax Limitations Brief History

- Under the millage rollback system, only one millage rate for all property (real and tangible)
- The single rate was rolled back to prevent increases in tax revenues

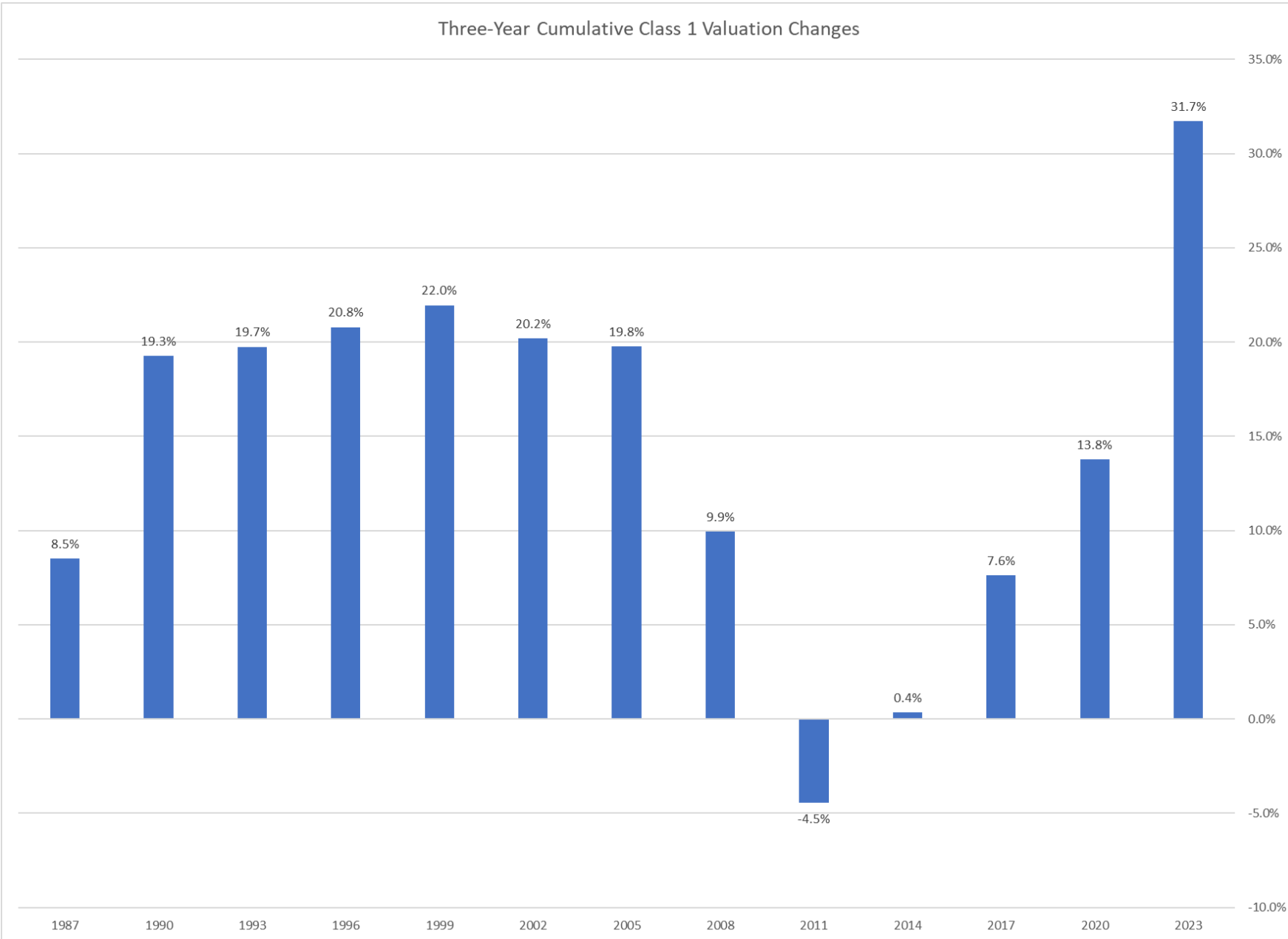
Property Tax Limitations Brief History

- The millage rollback system was replaced by reduction factors because the old system was determined to benefit tangible property relative to real property because of high inflation in the early and mid-1970s
- The 1980 Constitutional Amendment was to prevent rapid residential property growth due to inflation from shifting property tax burden from business real property owners to residential owners
- All real property was taken together from 1976 up to the effective date of the amendment
- Current conditions have similarities to the 1970s, but historical data show valuation increases now are an aberration

Year-Over-Year Change in Residential/Agricultural Values



Three-Year Cumulative Class 1 Valuation Changes



These 2 graphics clearly show that 2023 is an outlier. The risk with changes that address conditions like 2023, which occurred for the first time in 50 years, is that the impacts in years where these types of increases don't occur may not be what was intended.

Common Misconceptions of Reduction Factors

- Tax reduction factors are not designed to:
 - Ensure every taxpayer within a jurisdiction pays the same taxes on a levy as in the year preceding reappraisal or triennial update
 - Prevent school districts from receiving additional revenue from new construction

Tax Reduction Factors

	Illustration 1		
	Homeowner 1	Homeowner 2	District
Taxable Value Before Reappraisal	\$40,000	\$40,000	\$50,000,000
Taxes Before Reappraisal (50-Mill Rate)	\$2,000	\$2,000	\$2,500,000
Taxable Value After Reappraisal	\$46,000	\$42,000	\$55,000,000
Taxes After Reappraisal (45.45-Mill Rate)	\$2,091	\$1,909	\$2,500,000
Percent Change	4.6%	-4.6%	0.0%

Valuation in district increases 10 percent, but Taxpayer 1's value increases 15% and Taxpayer 2's value increases 5%

Assumes all 50 mills of tax are outside levies subject to reduction

Tax Reduction Factors

	Illustration 2		
	Homeowner 1	Homeowner 2	District
Taxable Value Before Reappraisal	\$40,000	\$40,000	\$50,000,000
Taxes Before Reappraisal (20-Mill Rate)	\$800	\$800	\$1,000,000
Taxable Value After Reappraisal	\$46,000	\$42,000	\$55,000,000
Taxes After Reappraisal (20-Mill Rate)	\$920	\$840	\$1,100,000
Percent Change	15.0%	5.0%	10.0%

Valuation in district increases 10 percent, but Taxpayer 1's value increases 15% and Taxpayer 2's value increases 5%

Individual taxes rise at a percentage rate equivalent to the percentage growth in the individual's valuation

Tax Reduction Factors

Illustration 3			
	Homeowner 1	Homeowner 2	District
Taxable Value Before Reappraisal	\$40,000	\$40,000	\$50,000,000
Taxes Before Reappraisal (5 Inside Mills)	\$200	\$200	\$250,000
Taxes Before Reappraisal (20 Outside Mills)	\$800	\$800	\$1,000,000
Total Taxes Before Reappraisal	\$1,000	\$1,000	\$1,250,000
Taxable Value After Reappraisal	\$46,000	\$42,000	\$55,000,000
Taxes After Reappraisal (5 Inside Mills)	\$230	\$210	\$275,000
Taxes After Reappraisal (18.18 Outside Mills)	\$836	\$764	\$1,000,000
Total Taxes After Reappraisal	\$1,066	\$974	\$1,275,000
Percent Change	6.6%	-2.6%	2.0%

Valuation in district increases 10 percent, but Taxpayer 1's value increases 15% and Taxpayer 2's value increases 5%

Taxpayer 1 has an increase from inside millage (\$30) and outside millage (\$36). Taxpayer 2 has taxes on outside millage falling faster than taxes on inside millage rise. The district sees an increase only based on inside millage

Tax Reduction Factors

Illustration 4			
	Homeowner 1	Homeowner 2	District
Taxable Value Before Reappraisal	\$40,000	\$40,000	\$50,000,000
Taxes Before Reappraisal (5 Inside Mills)	\$200	\$200	\$250,000
Taxes Before Reappraisal (16 Outside Mills)	\$640	\$640	\$800,000
Total Taxes Before Reappraisal	\$840	\$840	\$1,050,000
Taxable Value After Reappraisal	\$46,000	\$42,000	\$55,000,000
Taxes After Reappraisal (5 Inside Mills)	\$230	\$210	\$275,000
Taxes After Reappraisal (15 Outside Mills)	\$690	\$630	\$825,000
Total Taxes After Reappraisal	\$920	\$840	\$1,100,000
Percent Change	9.5%	0.0%	4.8%

For taxes to not grow on outside millage for the district, the outside rate would have to be reduced to 14.545 mills. Since that would drop the district below 20 total mills, the outside millage is set at 15 mills.

Taxpayer 1 has an increase from inside millage (\$30) and outside millage (\$50). Taxpayer 2 has taxes on outside millage falling at the same rate as taxes on inside millage rise. The district sees an increase in both inside and outside millage

Tax Reduction Factors

- Restrictions to tax reduction factors
 - The legislature may place floors on effective rates for any type of jurisdiction
 - Floors must be placed uniformly within the jurisdiction type
- Two floors are currently in place
 - 2% (20-mill) floor for school districts
 - 0.2% (2-mill) floor for joint vocational school districts

Tax Reduction Factor Floors

- Only current expense millage (inside or outside) counts toward the 20-mill floor
- The calculation *excludes*:
 - Bonds, permanent improvement levies, and emergency levies
 - Although revenue from emergency levies are essentially used for current expenses, they are excluded from the 20-mill calculation by statute **(whether the Constitution would allow their inclusion has never been adjudicated)**
- The 20-mill floor essentially prevents further reduction of tax rates once it is reached

Tax Reduction Factor Floors

- The 20-mill floor was first instated in law in 1977, following the passage of HB 920 in 1976, but before the enactment of Article XII, Section 2a of the Constitution in 1980
 - By statute, counting toward the floor were “taxes charged and payable for current expenses” (ORC Section 319.301)
 - In 1977, “current expenses” was not defined in ORC 319.301
- In 1980, this code section was amended to provide for the two classes of property allowed by the Constitutional amendment
 - There were no changes to “taxes charged and payable for current expenses,” nor was a definition added

Tax Reduction Factor Floors

- In 1987, ORC 319.301 was amended to add a definition of levies not to be included
 - “Taxes charged and payable” excludes any taxes charged and payable in 1985 or thereafter under sections 5705.194 to 5705.197 of the revised code (*emergency levy law*)
- This Committee has heard testimony that at one time, emergency levies were counted towards the 20-mill floor
 - There has never been specific language in the code stating emergency levies are to be counted toward the floor

Emergency Levy History

- In 1971, Emergency Levies were first allowed if "revenue...is insufficient to provide for the emergency requirements of the school district or to **prevent temporary or permanent closing of one or more schools...**"
 - These levies could be for up to five years but could not be renewed
- In HB 44, 1979, the text bolded above was replaced by "avoid an operating deficit"
 - This change greatly expanded the potential use of emergency levies
- HB 372 in 1983 first allowed for the renewal of emergency levies

Tax Reduction Factor Floors

- It was the combination of the provisions in HB 44 and HB 372 that made the issue of emergency levies counting in the floor relevant
- It is my belief that the explicit exclusion of emergency levies from the calculation of the 20-mill floor that was enacted in 1987 was a clarification by the Legislature that the original intent of “taxes charged and payable for current expenses” was never intended to include emergency levies

Why the 20-Mill Floor Exists

- For decades, the ORC has included a provision requiring schools to levy 20 mills of property taxes to qualify to receive state funding
- Prior to the early 1990s, the local share of basic formula funding was 20 mills (2%) times the total taxable property valuation in the district
 - If a district had \$100M of total taxable value, its expected local share of base funding was \$2M (2% of \$100M)
- Given the assumed local share was 20 mills of taxable value, the 20-mill floor ensured districts were actually receiving 20 mills worth of local taxes

Why the 20-Mill Floor Exists

- The 20-mill requirement for districts to receive state aid is still in law
- The 20-mill floor is still in law
- The local share of funding has changed a number of times since 1990. Under the FSFP, it is now a variable percentage of a local capacity base partially composed of property valuation and partially of income wealth

What Does Eliminating the Floor Look Like Over Time?

	Inside Millage	Class 1 Millage	Class 2 Millage	PUP Millage
1992	4.4	15.60	15.60	15.6
1995	4.4	13.68	15.00	15.6
1998	4.4	10.43	11.25	15.6
2001	4.4	9.55	11.29	15.6
2004	4.4	8.68	10.61	15.6
2007	4.4	7.43	10.59	15.6
2010	4.4	6.86	9.64	15.6
2013	4.4	6.75	9.61	15.6
2016	4.4	6.35	9.33	15.6
2019	4.4	5.99	7.58	15.6
2022	4.4	5.43	6.39	15.6

This is what tax rates would have looked like in one Southern Ohio District if no floor had existed in the last 30 years. This district has a total of 20 mills levied with no other millage. Why is this a problem?

PUP millage is the voted rate, which is the rate applied to Public Utility Tangible Property

What Does Eliminating the Floor Look Like Over Time?

2022 Total Per Pupil Property Tax Collections: \$1,950
FY 2024 Local Per Pupil Share of Base Cost: \$3,967
FY 2024 State Share of Base Cost: \$4,166
FY 2024 Total Per Pupil Base Cost: \$8,133
Total Revenue to District: \$6,117

In addition nearly 49% of all non-base cost funding is assumed to come from local taxpayers, this district would have none.

With the tax rates on the previous slide, this district in 2022 would have collected in total \$1,950 per pupil in local property taxes. The new Fair School Funding Plan assumes they are collecting \$3,967 per pupil plus amounts needed to pay for local shares of special education, transportation, etc.

Decoupling the property tax system from the FSFP would essentially break the new funding formula!

Property Values and the FSFP

Property Valuations and State Funding

- Prior to 1906, property taxes were the sole source of funding in Ohio for public schools
- Since the state became involved in funding that year, there have always been state and local shares of funding, with the local share almost always being based solely on property wealth
- The DeRolph decisions in the 1990s did not forbid the use of property wealth in local funding
 - **It said there could not be an “overreliance” on property wealth to fund schools**

Property Values and the FSFP

- Valuations are a 60 percent portion of local capacity, which determines the state and local shares of funding the FSFP
 - Resident income comprises the other 40 percent share
- The amount of property taxes charged and collected does not directly impact the operation of the FSFP
 - However, the FSFP is assuming the local valuations are generating local property tax revenue—if additional valuations due to reappraisal/triennial update are being included in the formula that do not generate additional revenue, gaps in funding begin appearing, and these gaps widen over time

FSFP Local Capacity and Local Share of Funding

- Once local capacity is determined, it is expressed on a per pupil basis
- The assumed local share of base funding is a variable percentage of the per pupil local capacity
- The median percentage is 2.25 percent of capacity
 - That percentage is adjusted up or down based on the median income in the district relative to the statewide median income, with a maximum local share of 2.5 percent in the 40 highest capacity districts (there is no minimum)

FSFP Local Capacity

FY24 LOCAL CAPACITY EXAMPLE

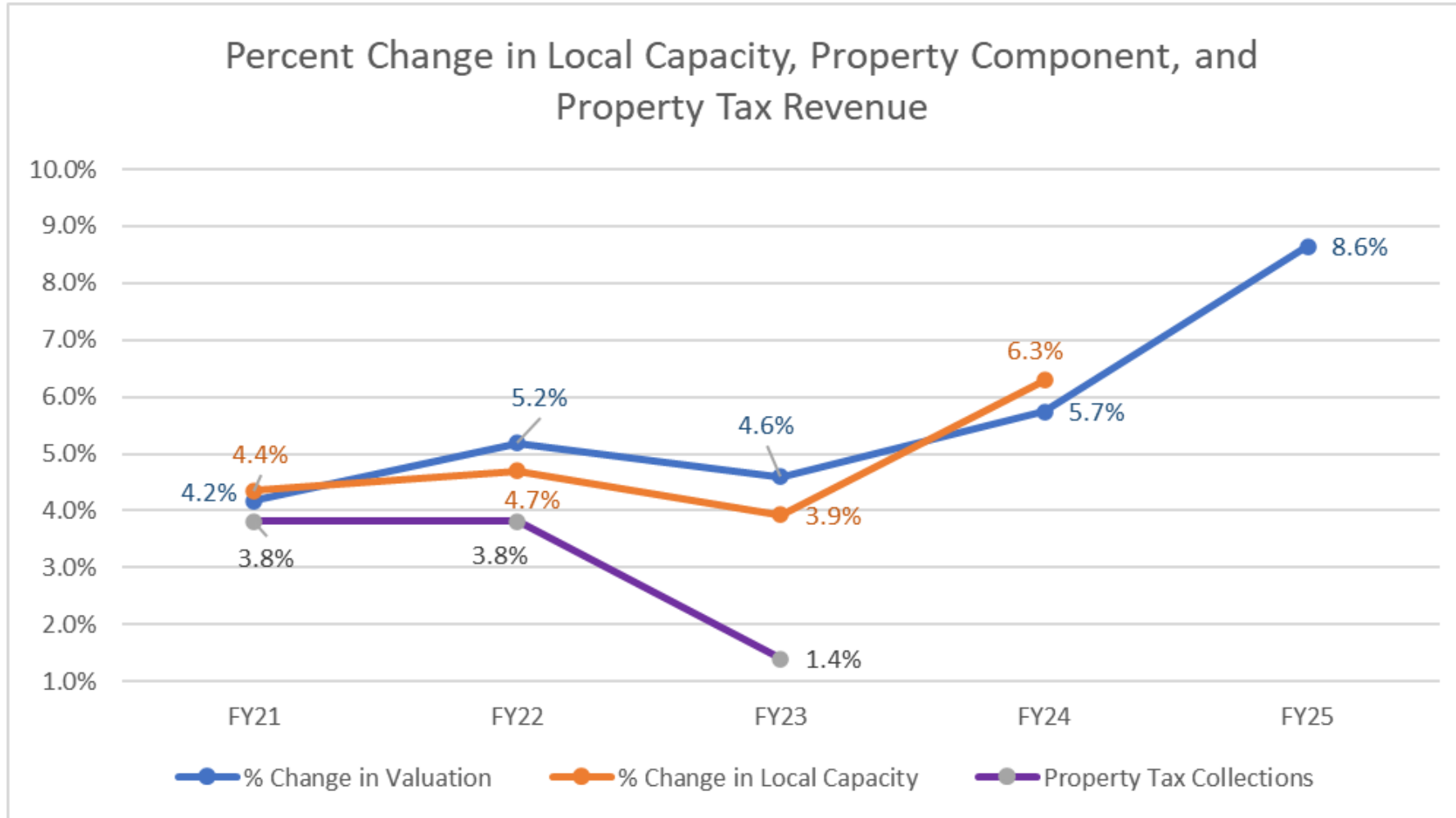
Tax Year	Valuation	Tax Year	Total Income	Adjusted Median Income	
2020	\$739,590,560	2019	\$1,044,713,682	2021 Median Income	\$50,384
2021	\$740,670,660	2020	\$1,060,250,920	2021 Number of State Tax Returns	17,120
2022	\$744,686,660	2021	\$1,153,785,434		
3-Year Average	\$741,649,293	3-Year Average	\$1,086,250,012	2021 Adjusted Median Income	\$862,574,080
Lesser of 2022 and Average	\$741,649,293	Lesser of 2021 and Average	\$1,086,250,012	2021 Adjusted Median Income	\$862,574,080
		Property Value Portion of Capacity	\$741,649,293	Weight	\$444,989,576
		Total Income Portion of Capacity	\$1,086,250,012	60%	\$217,250,002
		Median Income Portion of Capacity	\$862,574,080	20%	\$172,514,816
		Total Capacity		20%	\$834,754,394

FSFP Local Capacity and Local Share

Total Capacity	\$834,754,394
Enrollment	4,571
Per Pupil Capacity	\$182,633
Local Share of Capacity	2.30%
Per Pupil Local Share	\$4,202
Assumed Total Calculated Per Pupil Base Cost	\$8,145
Per Pupil State Share of Base Cost	\$3,943
State Share Percentage of Most Categorical Funding	48.41%

Continuing the example from the previous slide—this district would be expected to provide \$4,202 per pupil of base cost funding from local revenue, plus 51.59 percent of shared categorical funding from local revenue (Special Education, ELL, Career Tech, Gifted, and Transportation)

FSFP Local Capacity



Property tax revenue lags valuation changes and local capacity changes. This can mostly be offset by increasing inputs in the FSFP to keep up with capacity inflation. **Local tax collections growing slower than capacity increases the local share of funding.**

Note: FY 25 property tax change is partially estimated because 2023 public utility values are not yet available

Concluding Observations

Concluding Observations

- The Constitution is restrictive of what is and is not allowed in the operation of the property tax
 - Some of the issues have been litigated and some have not
- The Fair School Funding Plan was constructed based upon, and to work in concert with, the property tax system as it exists right now
 - Significant changes in the property tax system could break this relationship and cause the FSFP to fail